

The Australian dollar was again one of the strongest members of the G10 currency basket in January, behind only the Norwegian krone and New Zealand dollar, building on its outperformance in December.

The trade-weighted index, which values the AUD against a basket of currencies based on the share of trade with Australia, rose to its highest levels in almost five years, before easing on the last trading day of the month.

Trade in the Aussie dollar began positively before accelerating after news of a sharp drop in the unemployment rate in December and further acceleration in annual underlying inflation in Q4 2025 saw traders add to their bets for an RBA cash rate hike in February.

The AUD's biggest gains were against the USD, following a savage late-month sell-off in the greenback that pushed the US dollar index to its lowest levels since early 2022. The slide occurred in the wake of concerns over US foreign policy developments, the outlook for US government debt, and the ongoing White House attacks on the Fed for not lowering interest rates fast enough. The USD fall was given additional impetus by comments from US President Donald Trump that the dollar's depreciation was 'great', fuelling speculation that the White House favours a lower dollar to improve the competitiveness of US industry.

The rise in the Aussie dollar and the slide in the greenback pushed the AUD/USD above US\$0.70 for the first time in almost three years, but the exchange rate has eased since.

The AUD also continued to climb against the Japanese yen to reach fresh 18-month highs, before falling back somewhat.

Model Expected Value	Present Rate	Expected Value Band
0.6725	0.6964	0.6875 – 0.6575

The Australian dollar traded between US\$0.6670 and US\$0.7049 on a close-of-day basis in January and averaged US\$0.6787 over the month. The AUD/USD has averaged US\$0.6588 over the first seven months of 2025-26, after averaging US\$0.6479 in 2024-25.

The spread between the Australian two-year Commonwealth bond yield and its US counterpart continued to widen in January, as expectations for RBA cash rate increases continued to build. The spread began January at 49bps and widened to 68bps by the end of the month, its widest level since January 2017. The spread averaged 55bps during the month.

There was no RBA Monetary Policy Board meeting in January. However, the RBA is widely expected to raise the cash rate target by 25bps to 3.85 per cent on 3 February, following the December CPI report which saw quarterly trimmed mean inflation of 0.9% in Q4 2025, after it rose to 1.0% in Q3. This pushed the annual underlying inflation rate up 0.4pppts to 3.4% in Q4, while annual headline inflation increased to 3.8 per cent in December, well above the RBA's 2-3 per cent target range.

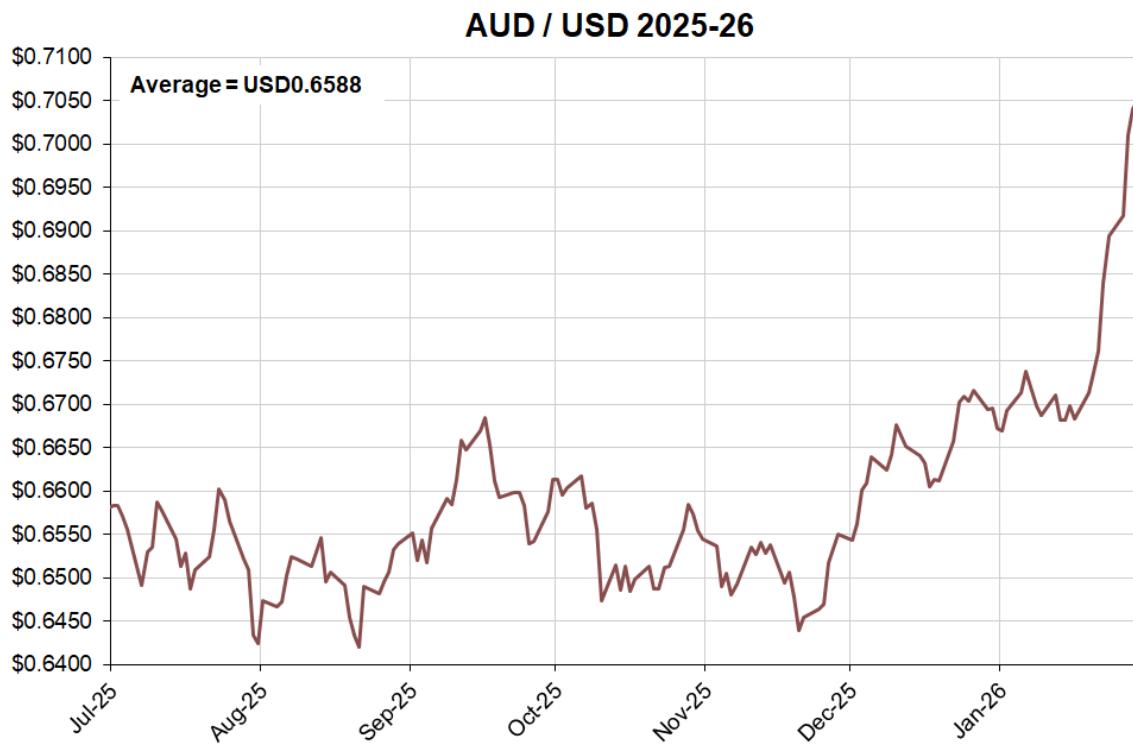
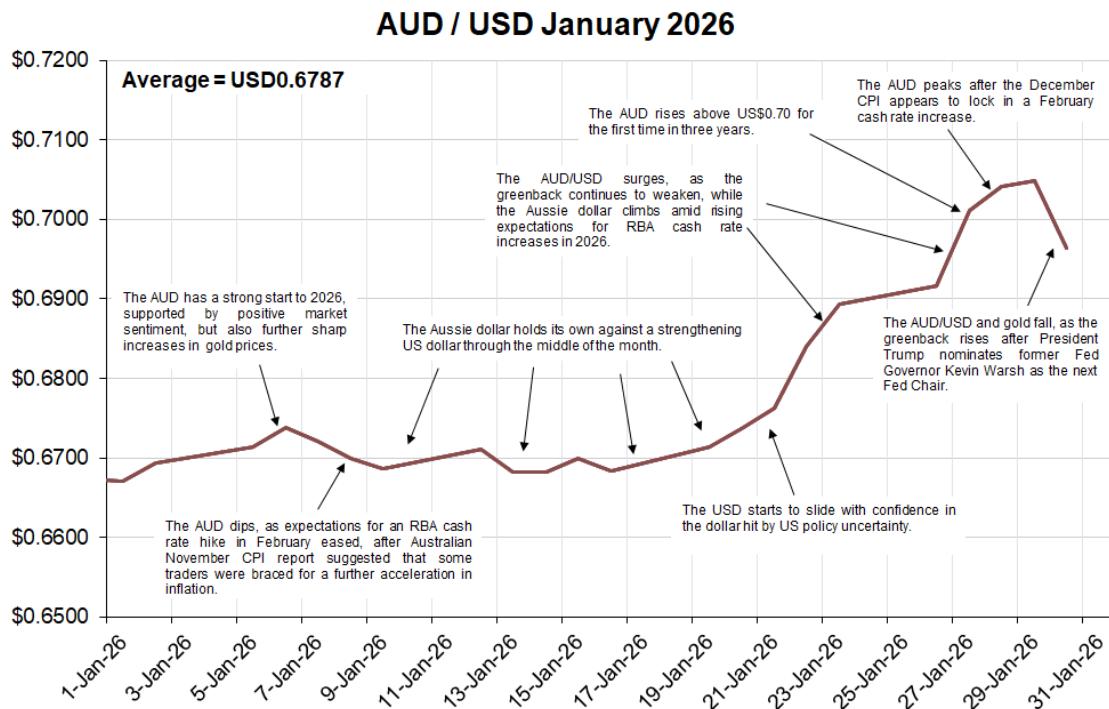
Financial markets are currently pricing in a 72 per cent chance of a 25bps increase, with a second 25bps rise is fully priced in by August. The quarterly Statement on Monetary Policy – which will be released with the cash rate announcement tomorrow – will contain the RBA's latest economic forecasts and help shape market expectations around the outlook for monetary policy in the coming months.

In the US, the FOMC kept the fed funds target range unchanged at 3.50-3.75 per cent in January, as expected. The market is fully pricing in a further 25bps reduction by July, and a total of 53bps is priced in by the end of the year.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD	 	0.6964	0.7049	4.4%	0.7049	0.5960
AUD/EUR	 	0.5876	0.5890	3.4%	0.6095	0.5437
AUD/GBP	 	0.5090	0.5105	2.7%	0.5105	0.4667
AUD/JPY	 	107.76	108.37	3.1%	108.37	87.15
AUD/CNY	 	4.8549	4.8893	4.1%	4.8893	4.3725

Commodity prices were mainly higher in December, although iron ore futures prices were an exception, falling back slightly but remaining well above US\$100 a tonne. The RBA Index of Commodity Prices – which is an indicator of prices received by Australian exporters – rose for the sixth month in a row in December, with increases across all categories. Brent crude oil futures prices rose to the highest levels since August 2025, posting their biggest monthly increase in four years, as tensions in the Middle East escalated in the wake of widespread protests and government crackdown in Iran. The gold price climbed to fresh record highs in January, rising to over US\$5,000 an ounce for the first time, while the silver price also hit all-time highs, before both fell back at the end of the month. Copper futures also hit their highest level on record, while lithium ore prices rose to the highest levels in over two years.

Commodity AUD	30-Jan-26	MoM (%)	YoY (%)
CRB Index	459.1	2.5%	-5.8%
RBA Commodity Price Index	96.9	2.6%	-0.8%
Brent Crude	\$101.39	11.2%	-14.0%
Singapore Gasoil 10 ppm	\$129.32	7.8%	-12.1%
Gold	\$7,019.84	8.4%	56.9%
Singapore Iron Ore Futures (62% Fe)	\$148.61	-5.9%	-12.5%
Nickel	\$25,751.58	3.2%	5.9%
Copper	\$18,871.92	1.4%	30.5%
Aluminium	\$4,509.47	0.4%	8.8%



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